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SUBJECT: STRUGGLING SE TURKEY TEXTILE AND AGRICULTURAL SECTORS

1.(SBU-BUS SENS) Summary: In meetings with PO in the last month, local businessmen have been cautiously noting signs of a bottom in the regional economy and expressing guarded positive macro outlooks about a gradual return to growth in the region over the next 3-4 years. They also spoke of the need for consolidation in the textile sector, but noted the weakness of such a tradition in Turkey's business culture. Large food producers and commodities business people noted a "down year" in the making and commented on international contributors to their business models. End Summary.

Cotton brokers in Adana are "miserable"

2. (SBU BUS) Recently a prominent Turkish cotton broker, headquartered in Adana, spoke to PO about the "woes" in the cotton brokering business this season. "There are just a few of us in Turkey," he said, "but we are miserable." He attributed current challenges to a "slowdown in China in the last three months and a bumper crop in cotton coming in this year." He said that the "Chinese demand (for imported cotton) has really dropped. They obviously decided to cool things down and their demand for (imported) cotton this quarter is really low now compared to (this time) last year." He said that Turkish cotton producers have expanded their cultivation areas this year and more farmers opted to expand their cotton planting after last year's elevated prices. All told, he summarized that reduced Chinese demand for cotton and an increased anticipated worldwide cotton supply this year was squeezing cotton brokers' margins and knocking 20-30 percent off last year's gross revenues.

3.(SBU) The broker, who sells about 200,000 bales of U.S. (Texas, Carolinas and Memphis) cotton annually to open-ended spinning Turkish mill clients to account for almost half his annual sales, made an appeal for the U.S. to continue GSM financing. He claimed that many of his larger deals are dependent on GSM financing and that it is not a "distorting effect on commodity trade, like quotas." He said that, other than U.S. cotton for which he foresaw continued strong Turkish demand, his other cotton sources are Israel, Turkmenistan, Uzbekistan and west Africa.

Consolidation, but survival in Turkish textiles predicted

4. (SBU SUS SENS) Several textile business people and observers asked about regional prospects with the multi-fiber agreement's (MFA) expiration approaching were not optimistic in the short-term, but offered guardedly positive long-term views. Most saw that the MFA's expiration would mean more competition than many older, traditional and poorly-managed mills could handle. They were particularly worried about short-run effects in the Cukurova area, near Adana, where they predicted many failures and much unemployment on the horizon. While they noted some short-term respite from a recent drop in cotton prices, they observed that very strong Chinese competition had reduced margins tremendously and that their targeted foreign sales denominated in dollars had declining value. They also pointed out slowly growing Turkish labor costs relative to South, Southeast and Central Asian textile producers as well as rising energy costs. One contact, who manages and partly owns a synthetic fiber's textile plant in Tarsus, said that "a few of the healthier Cukurova companies want to compete fairly like the big players, but are being undercut by failing mills who are null-invoicing, paying only day rates for labor and otherwise dumping products on the market." They said that the financially strong textile industries in Gaziantep (SANKO), Kahraman Maras (KIPAS), Istanbul and Bursa, who have invested - or publicly committed to - almost 900 million dollars in new plant this year, would weather the new competitive trends, albeit with lesser margins and lower returns on equity. Nevertheless, since most are almost entirely privately held, this factor would not be that significant. "Textiles are a way of life for the big players," one observer noted.

5. (SBU BUS SENS) "Logically, there would be consolidation in textiles," one businessman said, "but that is harder in this 'patron' business culture, where companies are privately-held and your factory is the core of your social identity. Our lawyers are also just getting to understand this business tool,"

one American-educated businessman said. Still some small mills in Kahraman Maras and one or two near Adana have closed or been sold out, if they were new enough, by the big players in Kahraman Maras. "Others will try to move offshore, such as a few have done in Turkmenistan and Bulgaria," another businessman added, "Still this is risky since doing business in Turkmenistan is unpredictable and Bulgaria's low wage rates could rise with EU accession."

6.(SBU BUS SENS) Most experienced textile business people cited Turkish textile producers' domestic sources of cotton, proximity to EU and European markets, earlier entry into "branded products," gradually increasing targeting of higher value-added products, well-establish client ties, textile innovation and proven quality, and deeper sources of non-public financing as the keys to the industry's predicted survival in the next 3-5 years. "It does not mean that we will avoid turmoil, just that we will survive," one cotton broker concluded.

Which way will Sabanci Group textiles go?  
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7.(SBU BUS SENS) In the Cukurova textile community, many eyes are on the Sabanci Group's BOSSA mills, which local contacts say is really the only financially strong player left in and around Adana. BOSSA representatives and other Sabanci Group representatives have said that the company is less and less enchanted with the low-margin textile industry from which the company first grew, but it is unclear whether the company is prepared to sever its ties to the industry altogether. It has been consolidating its large BOSSA plant area into a condensed footprint, selling off excess real estate in the process, and retiring some older workers early, in both blue and white collar positions. Some observers wonder whether the company, under new strategic leadership and seeing impending strong competition in the sector may be tempted to sell its holdings to a strong textile-focused group, such as SANKO or KIPAS.

Regional businessman sees slow recovery nationwide, SE trailing  
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8.(SBU BUS SENS) Polled about future economic prospects, area business people cautiously are noting signs of a bottom in the regional economy and expressing guarded optimism about a gradual return to growth over the next 3-4 years. "Right now no one is building plant, except the few in the textile business building in Adiyaman (province) because of the new regional incentives. There is too much excess capacity already, but they are laying off fewer workers month-on-month," one business contact who travels nationwide regularly said. "Southeast Turkey still has the furthest to go in the recovery, but area productivity is starting to rise in some sectors. Without more worker skills entering the labor force, however, the area's low-skill industries are seeing less of this productivity gain just as they face rising competition," one contact said, pointing toward textile, forestry and furniture sectors, strong in southeast Turkey, as economic "soft spots."

Farmers, Food producers see mixed results, want end to subsidies  
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9.(SBU SUS SENS) Several Cukurova region big agricultural producers complained of "excess competition from foreign vegetables and wheat with which we cannot compete, especially with rising fuel prices." They lamented the influx of "artificially cheap" southeast EU vegetables and some international grains and strongly criticized international food subsidy programs. The EU and (the U.S.) have to stop this. You are flooding the markets with subsidized food products and drowning us out in Turkey, Pakistan and Africa," one U.S.-educated Turkish farmer said. These contacts cited the biggest foreign competition in grains, especially corn and wheat; onions and potatoes; and some green vegetables, such as broccoli, singling out Greece, Italy and Spain as their market interlopers. (Note: Turkey places an 80 percent import duty on corn and does not meet its domestic demand for corn. End Note.)

10.(SBU BUS SENS) Nevertheless, some niche food product players saw the market somewhat differently. The representative of an Adana-based aquaculture farm selling assorted seafood into the EU markets was optimistic about future growth and noted expanding demand for her company's products, such as crayfish, frog legs, shrimp, crab and snails. Another fruit producer said that his products, greenhouse grown from California strawberry stock imported annually, was doing well provided he could protect its brand name from "falsely advertising competitors in more profitable 'truck markets,' like Istanbul, Izmir and Ankara." He also noted that, because he did not trust the GOT to enforce food patents and trademarks, he had hedged his business by investing in ice cream production as well, because with a growing population, a significant portion of which was young, there was always dependable growth in the sweets food sector.

11.(SBU) In yet another perspective on the food products market in southeast Turkey, Turkish truck drivers frequently delivering goods to/from Iraq freely talk of loading their truck cabs and luggage in Iraq with tea, coffee, sugar, cocoa, flour, rice and candy to re-sell in Turkey where it brings two to three times its Iraqi cost.

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